

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL
LEGISLATURE AND COUNCIL ON HIBISCUS COAST DEVELOPMENT AGENCY (PTY) LTD
REPORT ON THE FINANCIAL STATEMENTS**

Introduction

1. I have audited the financial statements of the Hibiscus Coast Development Agency (Pty) Ltd set out on pages ... to ..., which comprise, the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No. 5 of 2012) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the general notice issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion.

Basis for qualified opinion

Irregular expenditure

6. I was unable to obtain sufficient appropriate audit evidence on irregular expenditure amounting to R341 284 disclosed in note 24 to the financial statements, as the misstatements identified during the audit were not adequately adjusted and no evidence was provided that the entire population had been evaluated.

Property, plant and equipment

7. I was not able to obtain sufficient appropriate audit evidence to determine if amounts totaling R143 303, as disclosed in note 2 of the financial statements, for property, plant and equipment required adjustments. The municipal entity had not provided sufficient appropriate evidence that the entire population had been evaluated and that misstatements identified had been adjusted accordingly.

Payables from exchange transactions

8. I was unable to determine if adjustments were required to trade and other payables amounting to R286 610 as disclosed in note 6 to the statement of financial position and the related expenses, as the misstatements identified during the audit were not adequately adjusted and no evidence was provided that the entire population had been evaluated.

Qualified Opinion

9. In my opinion, except for the effects of the matters described in the basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Hibiscus Coast Development Agency (Pty) Ltd as at 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

10. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Restatement of corresponding figures

11. As disclosed in note 13 to the financial statements, the corresponding figures for 30 June 2012 have been restated as a result of an error discovered during 2013 in the financial statements of the Hibiscus Coast Development Agency (Pty) Ltd at, and for the year ended, 30 June 2012.

Unauthorised expenditure

12. As disclosed in note 25 to the financial statements, unauthorised expenditure of R141 470 was incurred as a result of expenditure exceeding the approved budget for operating expenditure.

Fruitless and wasteful expenditure

13. As disclosed in note 23 to the financial statements, fruitless and wasteful expenditure of R54 228 was incurred as a result of interest paid for late creditor payments and duplicate payments made to suppliers.

Additional matters

14. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material inconsistencies in other information included in the annual report

15. I have not obtained all other information included in the annual report for my review and have not been able to identify any material inconsistencies with the financial statements.
Management has not made the annual report and all other information included in the annual report available for audit purposes.

Unaudited supplementary schedules

16. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

17. In accordance with the PAA and the general notice issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

18. I performed procedures to obtain evidence about the usefulness and reliability of the information in the annual performance report as set out on pages ... to ... of the annual report.
19. The reported performance against predetermined objectives was evaluated against the overall criteria of usefulness and reliability. The usefulness of information in the annual performance report relates to whether it is presented in accordance with the National Treasury's annual reporting principles and whether the reported performance is consistent with the planned development priorities. The usefulness of information further relates to whether indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the National Treasury *Framework for managing programme performance information* (FMPPI).
- The reliability of the information in respect of the selected development priorities is assessed to determine whether it adequately reflects the facts (i.e. whether it is valid, accurate and complete).
20. The material findings are as follows:

Usefulness of annual performance report

Measurability

Performance targets not specific

21. The National Treasury FMPPI requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 81% of the targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the FMPPI but had not received the necessary training to enable application of the principles.

Performance Indicators not well defined

22. The National Treasury FMPPI requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 81% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was aware of the requirements of the FMPPI but had not received the necessary training to enable application of the principles.

Reliability of selected development priorities in the annual performance report

23. The National Treasury FMPPI requires that institutions should have appropriate systems to collect, collate, verify and store performance information to ensure valid, accurate and complete reporting of actual achievements against planned objectives, indicators and targets.
24. Significantly important targets with respect to the Revitalised park, Received funding, Signed PPP agreement, Preferred bidder appointment, Scheduled operator secured OR Tambo to Margate, Secured funding for implementation, Repaired and resurfaced runway, Repaired and resurfaced apron, Inward investment facilitated, Investment conference 2012, Adopted industrial development strategy, Funding and Signed MOU development priorities are not reliable when compared to the source information and evidence provided. This was due to the lack of standard operating procedures for the accurate recording of actual achievements.

Additional matter

25. I draw attention to the following matter below. This matter does not have an impact on the predetermined objectives audit findings reported above.

Achievement of planned targets

26. Of the total number of 39 targets planned for the year, 28 targets were not achieved during the year under review. This represents 72% of total planned targets that were not achieved during the year under review. This was due to instability at senior management level and no dedicated individual for performance management.

Compliance with laws and regulations

27. I performed procedures to obtain evidence that the entity has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations as set out in the general notice issued in terms of the PAA are as follows:

Strategic planning and performance management

28. The municipal entity did not ensure that annual performance objectives and indicators were established by agreement with the parent municipality and included in the municipal entity's multi-year business plan, as required by section 93B(a) of the Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Annual financial statements

29. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements identified by the auditors have not been corrected, resulting in the financial statements receiving a qualified audit opinion.

Budget management

30. The budget of the municipal entity was not consistent with the service delivery agreement between the entity and the entity's parent municipality, as required by section 87(5)(b) of the MFMA.
31. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 87(8) of the MFMA.

Expenditure management

32. An adequate management, accounting and information system which recognised expenditure when it was incurred, accounted for creditors and accounted for payments made was not in place, as required by section 99(2)(c) of the MFMA.
33. Reasonable steps were not taken to prevent unauthorised, irregular and fruitless and wasteful expenditure, as required by section 95(d) of the MFMA.

Procurement and contract management

34. Goods and services with a transaction value of less than R200 000 were procured without obtaining the required price quotations as required by Supply Chain Management (SCM) regulation 17(a) and (c).
35. Quotations were accepted from prospective providers who were not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
36. The preference point system was not applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act, 2000 (Act No. 5 of 2000) (PPPFA) and SCM regulation 28(1)(a).
37. Sufficient appropriate audit evidence could not be obtained that quotations were awarded to bidders that scored the highest points in the evaluation process, as required by section 2(1)(f) of the PPPFA.
38. Quotations were awarded to providers whose tax matters had not been declared to be in order, as required by SCM regulation 43.
39. Contracts and quotations were awarded to bidders who did not submit a declaration on whether they were employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

Asset management

40. An effective system of internal control for assets was not in place, as required by section 96(2)(b) of the MFMA.

Liabilities management

41. An effective system of internal control for liabilities was not in place, as required by section 96(2)(b) of the MFMA.

Human resource management

42. The project manager did not have the higher education qualification as required by regulations 6 and 7 of the Municipal Regulations on Minimum Competency Levels.
43. The competencies of finance official was not assessed in a timely manner in order to identify and address gaps in competency levels, as required by the Municipal Regulations on Minimum Competency Levels, regulation 13.
44. The annual report was not received for audit purposes and it could not be assessed if the municipal entity did reflect information on compliance with prescribed minimum competencies as required by the Regulations on Minimum Competency Levels regulations 14(3). Management has not made the annual report and all other information included in the annual report available for audit purposes.

Internal audit

45. The internal audit unit did not function as required by section 165(2) of the MFMA, in that it did not advise the accounting officer on matters relating to accounting procedures and practices, risk management and loss control.

Internal control

46. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations are included in this report.

Leadership

47. The accounting officer and management did not exercise oversight responsibility over procurement of goods and services to ensure that they are complying with the requirements of the MFMA and related regulations.

Financial and performance management

48. The accounting officer and management did not ensure that regular accurate and complete financial and performance reports that are supported and evidenced by reliable information were prepared. This resulted in material amendments being made to the financial statements submitted for audit purposes. Action plans to address identified internal control deficiencies were not adequately monitored, resulting in non-compliance with applicable laws and regulations.
49. There were inadequate controls over monthly processing and reconciling of transactions and accurate and complete financial information supported by reliable information was not prepared.
50. Management did not implement controls over the preparation, review and reconciliation of the financial statements.

Governance

51. Risk assessments performed were not sufficient as it did not include business risks of the entity and internal audit did not perform all tasks required by the MFMA.
52. The internal audit did not report to management on accounting procedures and practices, risk management and loss control.

Pietermaritzburg

30 November 2013



A U D I T O R - G E N E R A L
S O U T H A F R I C A

Auditing to build public confidence